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ECONOMIC INTELLIGENCE REPORT

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JULY-31 DECEMBER 1957**

EIC-R14-S4

28 February 1958

ECONOMIC INTELLIGENCE COMMITTEE

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FOREWORD

The reports on Sino-Soviet Bloc Economic Activities in Underdeveloped Areas in the EIC-R-14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Sino-Soviet Bloc countries with the underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series, under the same title.

This report, covering the 6 months from 1 July through 31 December 1957, constitutes the fourth periodic supplement to EIC-R-14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. This supplement was prepared by a Working Group of the Economic Intelligence Committee, including representatives of the Departments of State, the Army, the Navy, the Air Force, Commerce, and Agriculture; the International Cooperation Administration; the Office of the Secretary of Defense; and the Central Intelligence Agency. It was approved by the Economic Intelligence Committee on 21 February 1958.

For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all countries in South and Southeast Asia; (2) all countries in the Middle East, including Egypt, Sudan, Turkey, and Greece; (3) the independent countries of Africa, except the Union of South Africa; (4) the European countries of Yugoslavia, Iceland, Spain, and Portugal; and (5) all independent countries in Latin America.

It should be noted that the figures for Sino-Soviet Bloc aid and trade throughout this report -- both in the text and in the tables -- represent estimates based on the best available information.

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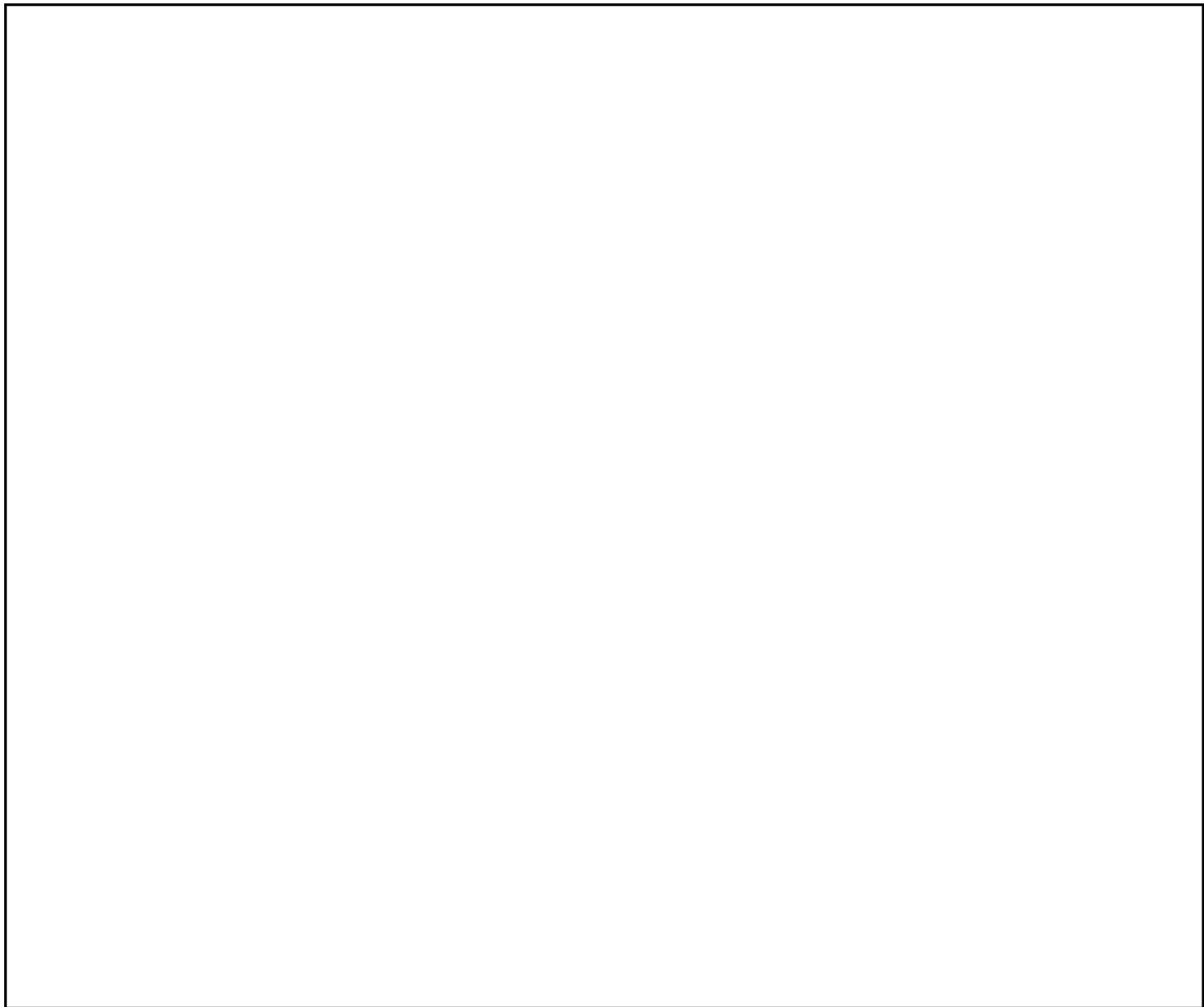
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Summary

Sino-Soviet Bloc economic activities in underdeveloped countries of the Free World expanded more rapidly during the last 6 months of 1957 than in any previous half-year period since the beginning of the economic offensive in 1954. Two large credits, as well as a number of smaller ones, were extended; definite obligations were made on several large credits extended in the past; considerable progress was made on projects that had been started in earlier periods; and trade continued to increase rapidly. Arms deliveries continued, and agreements were made for additional deliveries. At the beginning of 1958, Bloc countries were actively negotiating new agreements with a number of underdeveloped countries which have heretofore accepted little or no Bloc assistance.

The Afro-Asian Peoples Solidarity Conference held in Cairo in December 1957 afforded an advantageous propaganda platform for broadening the economic offensive and tying it to other elements of Sino-Soviet diplomacy. The principal Soviet speaker at the meeting asserted that the USSR was ready to aid any underdeveloped country in Asia or Africa to the limit of its ability. This gesture, which was given worldwide publicity, was accompanied by a Soviet proposal that underdeveloped countries nationalize foreign-owned industries in order to further their economic development. In January 1958 the Soviet Government representative at the UN Economic Commission for Asia and the Far East meeting in Bangkok specifically offered credits up to 5 years to cover purchases of equipment and machinery from the USSR. He also alluded to difficulties incurred when Asian countries rely on Western purchasers of their exportable production and stressed the possibility of the USSR signing long-term agreements to import the basic export items of the area.

The Bloc also made a number of proposals to specific countries, in particular to underdeveloped countries that had accepted little or no Bloc assistance. The USSR offered Iran a broad plan of assistance for economic development as well as a number of separate specific proposals, including one that would involve Soviet participation in the development of petroleum in northern Iran. Poland offered to assist Brazil in developing its iron deposits. Offers were also made to other underdeveloped countries, including Pakistan, Tunisia, Sudan, and Ghana.

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Substantial gains of the USSR, particularly as a result of the Soviet demonstration of scientific achievement in the field of rocketry, have had an extraordinary impact in underdeveloped countries, where these accomplishments have been widely acclaimed as proof of the general progress made by the USSR, itself so recently an underdeveloped country. These gains encouraged the USSR and the other Bloc countries to pursue their economic offensive with increased vigor. At the same time, some underdeveloped countries that previously accepted Bloc offers have indicated their willingness to receive more assistance, while some others previously averse to expanding economic relations with the Bloc have lost much of that reluctance. Furthermore, the restoration of stability in Eastern Europe, following the Hungarian uprising and the change of regime in Poland, has put the Soviet leaders into better position to exploit immediate opportunities as well as to promote new opportunities.

From the beginning of the economic offensive to the close of 1957, Sino-Soviet Bloc credits and grants to underdeveloped countries of the Free World have amounted to about \$1.9 billion.* New credit extensions, which had been limited during the previous half-year, expanded during the last 6 months of 1957 by about \$480 million.

Opportunities which the USSR had been nurturing for several months opened the way for a Soviet economic credit agreement with Syria for \$168 million and for Soviet and Czechoslovak credit agreements with Egypt amounting in total to \$231 million. Syria also signed a new military agreement with the USSR, probably involving an additional \$30-million credit, and Egypt made arrangements for obtaining an unknown amount of additional arms from the USSR. Turkey and Burma received small credits from the USSR, the former about \$3 million and the latter about \$7 million. Burma also received a credit of about \$4 million from Communist China. Ceylon received a credit of \$3 million from Czechoslovakia and a grant of about \$16 million from Communist China. Afghanistan signed a new agreement with the USSR calling for a \$15-million credit for exploration and development of petroleum and mineral deposits in northern Afghanistan.

Several new agreements were being negotiated at the close of 1957. In some cases, negotiations have already resulted in the signing of assistance agreements; in other instances, acceptance seems imminent. An agreement in principle between the USSR and Ceylon was reached in January 1958 providing for a long-term credit of \$31 million. In January 1958, India signed a contract for the construction of a foundry which calls for Czechoslovakia to furnish \$24 million to \$36 million in credits. Also in January, Communist

* All value figures in this report are given in US dollar equivalents.

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China extended a credit of \$16 million to Yemen. New Bloc credits to Yemen were under negotiation. Arrangements were being made for Bloc shipments of arms to Indonesia.

Moreover, there are several Bloc offers outstanding on which negotiations are not currently in progress but which may be opened during the coming months. These include, in particular, the Soviet offers to Iran and the Polish offer to Brazil referred to above. Bloc offers to other underdeveloped countries, including Pakistan, Tunisia, Sudan, and Ghana, appeared to remain open for consideration, even though they are not now being actively negotiated.

Notable progress was made on Bloc projects during the last 6 months of 1957. Drawings on Bloc credits and grants now amount to about \$565 million compared with about \$420 million by 1 July 1957. Drawings on economic credits and grants during the last half of 1957 are conservatively estimated to have been well above \$100 million. Moreover, definite obligations under credits and grants were about \$1.2 billion at the close of 1957 compared with about \$700 million 6 months previously. There are therefore clear indications that the Bloc credit and grant program is moving rapidly into the performance stage.

There was also an increase during the last 6 months of 1957 in the number of Bloc military and economic specialists in underdeveloped countries. During this period, about 2,400 Bloc specialists were working in 19 underdeveloped countries. During the previous 6-month period, about 2,000 Bloc technicians were employed in various tasks in underdeveloped countries.

Preliminary data on 1957 Bloc trade with underdeveloped countries indicate that total trade may have been about 25 percent greater than in 1956. During the first 6 months of 1957, Bloc trade with these countries was nearly \$2 billion on an annual basis. This was approximately \$500 million above the 1956 level. Imports by the Bloc accounted for the greater part of the rise. During the first 6 months of 1957, such imports, stated on an annual basis, exceeded \$1 billion, about 40 percent higher than the 1956 level.

Commodity trade data for 1956 indicate that about 50 percent of Bloc exports to underdeveloped countries consisted of machinery, transport equipment, and manufactured goods. Fuel products, primarily petroleum, accounted for about 10 percent of Bloc exports, and food products and crude materials accounted for most of the remainder. Since 1953, there has been a decided shift in the composition of Bloc exports to underdeveloped countries. In 1953, shipments of food products and crude materials amounted to more than 50 percent

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of Bloc exports to underdeveloped countries, and shipments of manufactured products to about 25 percent. For the most part, the rise in importance of manufactures was accounted for by the European Satellites. Although Soviet exports of manufactured items rose significantly, they were small in relation to Free World or even Satellite exports of such goods.

Bloc imports from underdeveloped countries in 1956 consisted predominantly of food products and crude materials. This was also the case in 1953. Cotton, imported primarily by the Satellites and Communist China; tobacco, imported primarily by the Satellites; and rubber, imported mostly by the Satellites and Communist China, were the major import items in terms of value.

A summary of Bloc economic activities in underdeveloped areas, by region, follows:

South Asia.

During the last 6 months of 1957, Sino-Soviet Bloc economic activities in South Asia were focused primarily on India, Afghanistan, and Ceylon. The Soviet Bloc continued to play an important role in the development of the Afghan economy, but the government of Afghanistan tended to proceed cautiously in utilizing Soviet credits and contracted only for surveys of projects which it believed were most essential. Apparently disturbed over the prospects of overextending the country's limited financial resources, the government decided, at least for the time being, not to incur any new foreign obligations from any source. However, the Afghans apparently intend to utilize the remainder of outstanding Bloc credits. Afghan officials continued to show concern over the high cost estimates of certain Bloc projects, some of which were later revised downward by the Russians.

In India the major developments were agreement on the utilization of the \$126-million Soviet loan originally extended in November 1956 and a new Soviet offer of a \$25-million credit. A Czechoslovak credit of from \$24 million to \$36 million for a foundry forge plant was accepted in early January 1958. The Indian government was generally satisfied with the progress which the Soviet Bloc has made in implementing the \$270 million in economic assistance that it had extended through 1957. Bloc trade with India continued to expand in 1957, though it still represented a small percentage of total Indian trade. The urgent need for external assistance to finance the foreign exchange costs of India's Second Five Year Plan continued to make India receptive to Soviet Bloc as well as Free World economic aid.

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The arrival of a high-level Soviet mission in Colombo to negotiate an economic aid agreement with Ceylon and the implementation of projects under the Czechoslovak-Ceylonese Economic Cooperation Agreement of August 1956 featured expansion of Ceylon's economic relations with the Sino-Soviet Bloc. Ceylon and Communist China concluded a new 5-year rice-rubber agreement which provides for grant economic assistance to Ceylon in lieu of the premium which Ceylon received under the old rice-rubber agreement. Primarily the government's neutralist policy but also economic needs have increased Ceylon's interest in Sino-Soviet Bloc economic assistance.

Southeast Asia.

Burma, Cambodia, and Indonesia continued to be the focal points of the Bloc economic offensive in Southeast Asia during the second half of 1957. Burma's receptivity to Bloc technical assistance and offers of credit appeared to mount. Cambodia received additional deliveries of aid goods from Communist China.

The Indonesian Parliament ratified the \$100-million Soviet credit in February 1958. Indonesia continued to receive Soviet jeeps on credit. The USSR and Poland have offered to supply merchant ships to replace Dutch vessels formerly used for inter-island trade. The number of Bloc technicians in Indonesia increased sharply to above 100, including 76 East Germans for a sugar mill, 20 Czechoslovaks for a tire factory, and 8 Russians to service the jeeps. In addition, Indonesia was visited by trade delegations from Hungary, Poland, and Czechoslovakia.

Burma, in order to facilitate the work of the resident Soviet agricultural group, was interested in Soviet credit offers estimated at up to \$10 million. Burma reaffirmed its determination to proceed with the construction, with Soviet assistance, of the technological institute, hotel, and hospital. The planned Burmese expenditures for these projects during its current fiscal year were, however, reduced 30 percent to \$2.6 million.

In Cambodia the Chinese Communist aid program seems to be proceeding to the satisfaction of the Cambodian government and has received favorable publicity. The value of the aid goods received since the initial shipments in April 1957 is estimated to be up to half of the \$22.4-million grant.

Notable developments in Southeast Asia's trade with the Bloc included the decline in Burma-Bloc trade, especially the sharp drop in Burmese imports from Communist China. The two leading rubber producers in the area increased their exports of that commodity to

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Communist China. Indonesian exports through June amounted to 32,000 tons; Malayan exports through October, to 20,000 tons.

Middle East and Africa.

During the last half of 1957 the Soviet Bloc continued to make Egypt and Syria the principal targets of its economic offensive in this area. Yemen, Sudan, and Iran were other countries in which the Bloc strengthened its economic position.

In Egypt the most significant developments were economic aid agreements with the USSR and Czechoslovakia which if implemented will enable Egypt to finance a large portion of the foreign exchange costs of its 5-year industrialization program. Egypt also signed contracts with Soviet and Czechoslovak organizations for financial and technical assistance for various sectors of the Egyptian oil industry. The need for external assistance for its industrialization program has made for closer economic ties with the Bloc. Soviet Bloc military and economic assistance and the generally declining Free World demand for Egyptian cotton will enable the Bloc to maintain its large share of Egyptian foreign trade.

Highlighting economic activities in Syria was the conclusion of the Soviet-Syrian economic agreement to provide financial and technical assistance for Syria's contemplated development program. A new military assistance accord was probably arranged, and the repayment terms of arms credit eased. The Czechoslovaks and the Bulgarians made progress on various capital assistance projects awarded earlier in 1957. Soviet Bloc trade with Syria expanded markedly during the first half of 1957, and even more impressive advances are expected for the second half. Political rather than economic factors have been most instrumental in making Syria extremely vulnerable to Soviet Bloc economic and military overtures.

The continued arrival of Soviet Bloc supplies and technicians in connection with military economic development projects further strengthened the Bloc's position in Yemen. The USSR offered to provide Sudan with large-scale economic assistance and to buy the large cotton surpluses in exchange for manufactured goods. Increased cotton sales to the West toward the end of the year reduced Sudan's immediate receptivity to these offers. Poland proposed financial and technical assistance for the development of Jordan's iron ore deposits as well as for the rehabilitation of the Hejaz railroad.

There was a marked expansion in Soviet offers of economic assistance to Iran, which offers have become increasingly difficult for

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the Iranian government to refuse. An increase in trade with the Soviet Bloc was also evident during 1957. Greece's economic relations with the Soviet Bloc were highlighted by a continued expansion of trade with Bloc countries, particularly the USSR. Turkish approval of a Bloc offer of financial and technical assistance in establishing a glass factory -- despite Soviet threatening notes concerning the Syrian crisis -- featured Bloc economic relations with Turkey.

Bloc economic activities in Africa continued to be confined mainly to trade, which has shown an increase above 1956 levels. Tunisia and Morocco signed several trade agreements with Bloc countries envisaging further expansion of trade. Various Soviet Bloc trade delegations, moreover, visited African countries, and there has been an increase in cultural exchanges.

Latin America.

At the end of 1957 the threat of Sino-Soviet economic penetration in Latin America appeared to be at least as great as at any time in the past, and considerably greater than during the previous 2 years. After a period (in 1956 and 1957) when Bloc efforts and Latin American receptivity had diminished, evidence accumulated that both were again increasing. More important, emphasis appeared to center on development credits involving long-term relationships leading to close involvement of the Bloc countries in several key Latin American economies rather than, as in 1954-55, on direct trading, which waxes and wanes with the changing conditions in broader world markets.

During much of 1956 and the first half of 1957, Bloc offers of assistance to Latin America in economic development, trade agreement negotiations, and trade volumes declined from earlier levels. The primary Bloc targets in Latin America -- Argentina, Brazil, and Uruguay -- were encountering new problems involving hard currency shortages, capital equipment needs, and embarrassing surpluses of some products, all of which tended to increase their susceptibility to economic penetration.

Bloc nations were quick to seize the opportunities presented. Attractive credit offers were made to Brazil and Uruguay for industrial and transport equipment. Bloc concessions to Argentine and Uruguayan demands for a degree of multilateralism in payments arrangements resulted in several new agreements with these countries. In Argentina, Brazil, and Uruguay, hopes were revived that trade with Bloc countries and credits from the USSR and Poland could be used to solve domestic problems, achieve development goals, and stimulate the interest of Western nations. Argentina, especially, reversed

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an earlier stand and reportedly requested the USSR to renew old credit offers and extend new ones for capital goods and petroleum.

Implementation of Bloc commitments to Latin American countries was perhaps more satisfactory in 1957 than in earlier periods. Although the volume goals of some trade agreements were not achieved, others were exceeded, and Latin American countries seemed less perturbed in late 1957 concerning credit balances in Bloc currencies than they had been in 1955 and 1956.

Total Latin American - Bloc trade in 1957 fell an estimated 10 to 15 percent below 1956 levels. This reduction was most striking in Argentine and Uruguayan imports but was true for several other trading countries also. Cuba, which shipped a larger volume of sugar to the USSR at very high prices, was the only country to register a major increase in Bloc trade, and without this factor the over-all decline for the area would have been about 25 to 30 percent. The volume of Brazilian-Bloc trade, as in 1956, remained high and balanced.

Europe.

Khrushchev's June purge of the Soviet leadership brought an immediate improvement in Soviet-Yugoslav political and economic relations. The USSR and East Germany fixed new delivery schedules for investment projects which had been postponed during the period of strained relations. Despite its past experience, which made it wary in dealings with the USSR, Yugoslavia became more receptive to dealing with the Bloc as the political climate improved.

The Bloc continued to account for an increasing share of total Yugoslav trade. Even during the period of strained political relations prior to June, trade flowed smoothly; during the first 7 months of 1957, trade with the Bloc constituted 20.3 percent of total Yugoslav trade compared with 16.6 percent during the same period in 1956. Yugoslavia also succeeded in negotiating 3-year trade protocols with Poland and Czechoslovakia during the half year, thus putting trade with these countries on a firm footing. Yugoslavia now has such agreements with four Bloc countries which accounted for 82.9 percent of its trade with that area during 1956. Both in trade relations and in technical exchanges, however, the Yugoslav position was marked by a cautious and businesslike attitude. The number of Soviet technical experts in Yugoslavia -- most of them working on Soviet-financed projects -- was small, and the Yugoslavs apparently intend to keep it that way.

Iceland remained an important target for Bloc economic penetration efforts during the second half of 1957. Trade with the Bloc

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continued to grow, but a decision on acceptance of a \$24.5-million Soviet loan offered earlier in the year was obviated by loan commitments under NATO auspices of \$5 million from the US and the equivalent of \$2 million from the Federal Republic of Germany. Fulfillment of previous Bloc economic programs, involving small rural hydroelectric power stations and construction of fishing boats, proceeded without complaint.

Although the need for further foreign assistance will continue in 1958, it is unlikely that the present Icelandic Cabinet could accept large-scale aid from the Bloc (for example, of the order of magnitude of the Soviet offer of \$24.5 million) without causing withdrawal of the Social Democrats and the resultant fall of the Cabinet. Smaller-scale Bloc credits, similar to those already received, may be accepted, and the Communists may be able to exploit their position in the Cabinet to bring about acceptance, perhaps in exchange for some concession from them. So far as trade is concerned, receptivity to maintaining a high level of exchanges with the Bloc is likely to continue substantially unchanged in view of the fact that the drastic internal economic measures necessary to reorient trade to the West are not in prospect.

Portugal's economic relations with the Sino-Soviet Bloc showed no increase during the period. Targets set in trade and payments agreements were not even approximated, and Portuguese trade with the Bloc is declining. Exports to the Bloc continue to consist almost wholly of cork and cork products. Although negotiations were under way for the renewal of the trade agreement with Poland, actual trade under the previous agreement was less than 5 percent of the \$4.5 million target each way. Trade with the Bloc remained a negligible part of Portugal's total trade. It was reported that many items imported from Hungary were of poor quality, and new commercial contracts between Portuguese and Hungarian traders provide for quality controls on Hungarian export products.

Spain took steps during the period to put its trade with the Soviet Satellites on a more normal basis and encouraged their participation in Spanish trade fairs. A trade and payments agreement was negotiated between the Spanish Foreign Exchange Institute and the Polish National Bank providing for the exchange of goods valued at \$10 million in each direction. Negotiations were also under way for a similar trade agreement with Czechoslovakia, envisaging a \$15-million exchange each way, and for one with East Germany for \$25 million each way.

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